By Diana Ransom, Wall Street Journal

If most senators get their way, merchants that accept debit cards could soon get a price break. Whether consumers would benefit is a matter of debate.

On Thursday, the Senate voted 64-33 to amend the latest financial services reform legislation to limit interchange fees, transfer fees paid for by merchants to cardholders' financial institutions each time shoppers pay with plastic.

The amendment seeks to rein in transaction fees for debit cards issued by banks (excluding small financial institutions) by bringing them under the purview of the Federal Reserve; the Fed would be given a mandate to make fees "reasonable and proportionate." The measure, which was introduced last week by Senate Majority Whip Richard Durbin (D., Ill.), would also strip away certain provisions from Visa (V: 74.04*, +1.07, +1.46%) and MasterCard's (MA: 205.38*, +2.93, +1.44%) contracts that prevent merchants from offering discounts for using debit cards or paying with cash and setting card minimums.

Whether the amendment becomes law now hinges on passage of the Senate's broader financial reform package and support for the measure in bicameral negotiations. (The House financial reform bill passed in December did not include the restriction on interchange fees.)

For years, businesses large and small have complained that interchange fees have risen beyond reason. Not only have more shoppers begun using plastic -- many now use debit cards as a cash replacement – but in many cases, the price of acceptance has risen. Visa's domestic credit-card interchange rate rose from between 1.25% and 1.91% in 1991 to between 0.95% and 2.95% in 2009. Over the same period, MasterCard's rate also jumped from between 1.30% and 2.08% to between 0.90% and 3.25% last year, according to a 2009 Government Accountability Office (GAO) report about credit cards. Processing fees have also been added to debit-card purchases, which in the past were free for merchants to process.

Supporters of the measure, which include business associations such as the National Retail Federation and the Merchants Payment Coalition, say the move would benefit businesses and consumers.

"Higher interchange fees for businesses mean higher costs for retailers and consumers," Durbin said in a statement. He added that banks now make billions of dollars from the fees.

The amendment's opponents say it would effectively cut some banks out of the card-issuing industry. The Independent Community Bankers of America (ICBA), the Credit Union National Association and the National Association of Federal Credit Unions say it could harm small banks. Although small institutions -- those with less than $10 billion in assets -- would be exempt from regulations posed under the Durbin amendment, they would likely get pushed out of the card business, says Steve Verdier, the director of congressional affairs at ICBA. "In theory we could [still] charge higher rates, but if that were to happen, merchants would prejudice against the small bank cards," he says. "We have to stand on the same footing as big banks."

That could also have a negative impact on consumers, says Verdier. Fewer credit-card issuers could lead to reduced competition, which could then lead to higher fees for the big banks' cards. "Larger banks would be in a better position to offer less attractive terms than they do now," he says.

Ed Mierzwinski, the consumer program director for U.S. Public Interest Research Group, a consumer advocacy organization, says that the Durbin amendment would ultimately benefit consumers. "I believe that retailers are competitive," he says. "Merchants will pass along savings to consumers."

Other consumer advocates say a rollback in prices is unlikely. If businesses don't have to pay extra for interchange, it's unclear whether they'd pass on the savings, says Chi Chi Wu, a staff attorney at the National Consumer Law Center. "It is not unheard of that when businesses get a break on prices, that they don't directly pass it on," she says.

A study conducted by Reserve Bank of Australia in 2008 found that although retailer costs in Australia fell by 1.1 billion Australian dollars from March 2007 through February 2008 after the country capped interchange fees in 2003, there was no evidence that the cost savings had been passed on to consumers.

"They will not see any cost savings passed on to them," says Peter Garuccio, a spokesman for the American Bankers Association, an industry trade group.

In some cases, consumers may wind up paying more for their cards if the amendment passes, says John Ulzheimer, the president for educational services at Credit.com. "If the issuer is taking a 50% hit on their interchange income they will want to make it up somewhere else," he says. For instance, annual fees for rewards-bearing cards could rise or be introduced on cards that don't already have them, he says. In addition, consumers could face new fees to make up for the loss.

Card industry players, which include the Electronic Payments Coalition, the card networks themselves, along with various industry-backed associations, also say consumers could face new problems if the amendment passes.

MasterCard said in a statement that the amendment would move costs "from big-box merchants to consumers." The company also criticized the amendment's measures aimed at improving merchants' ability to set charge minimums and maximums. "Consumers would find themselves surprised at the cash register when they find their cards are rejected because they spent too much or not enough. Network rules currently protect consumers from this type of harm and must be left in place," says MasterCard.

There are two other bills pending that involve changing interchange rules. The Credit Card Fair Fee Act is sponsored in the Senate by Durbin, as well as Judiciary Committee Chairman John Conyers, (D., Mich.) in the House. That bill would require Visa and MasterCard banks to negotiate with merchants over interchange fees, rather than continuing to impose them unilaterally. The second bill, the Credit Card Interchange Fees Act, which is sponsored by Rep. Peter Welch, (D., Vt.), would require greater transparency on fees and give the Federal Trade Commission authority to prohibit interchange practices that violate consumer protection or anti-competition laws.